

**Title:** Understanding impact readiness in Portugal's social sector  
and designing a framework for capacity-building for social  
impact

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## Abstract

This project is based on the theme of capacity-building in social organisations to improve their impact readiness, which is the predictability of delivering intended outcomes. All organisations which have a social mission, non-profit or for-profit, will be considered to fall within the social sector for the purpose of this work.

The thesis will look at (i) what is impact readiness and what are the considerations for building impact readiness in social organisations, (ii) what is the international benchmark in measuring and building impact readiness, (iii) understand the impact readiness of Portuguese social organisations and the supply of capacity building for social impact in Portugal currently, and (iv) provide recommendations on the design of a framework for capacity building for impact readiness adapted to the Portuguese context. This work is of particular relevance to the Social Investment Laboratory, which is a sponsor of this project, in its policy work as part of the Portuguese Social Investment Taskforce (the “Taskforce”). This in turn will inform its contribution to the set-up of Portugal Inovação Social, a wholesaler catalyst entity of social innovation and social investment in the country, launched in early 2015.

Whilst the output of this work will be set a recommendations for wider application for capacity-building programmes in Portugal, Portugal Inovação Social will also clearly have a role in coordinating the efforts of market players – foundations, corporations, public sector and social organisations – in implementing these recommendations. In addition, the findings of this report could have relevance to other countries seeking to design capacity building frameworks in their local markets and to any impact-driven organisations with an interest in enhancing the delivery of impact within their work.

## Introduction

### Background

Capacity building is widely recognized in both the social sector and development work as being key to the successful delivery of an organisation's mission. This was the subject of a report called “Building the Capacity for Impact” which was prepared for the G8 Social Impact Investing Taskforce and informed the G8 taskforce's final report “Impact Investment: The Invisible Heart of Markets” (G8 Social Impact Investing Taskforce, 2014).

The Impetus report distinguishes between capacity-building to create strong, resilient organisations that can grow sustainably, considered to be investment and contract readiness, and those which can reliably and predictably produce meaningful social outcomes and successfully resolve the most pressing social issues. The latter is building impact readiness. The report notes that in the UK and elsewhere, there is a gap in capacity-building for impact readiness as this need has largely been neglected in attempts to build a social finance market globally. Similarly, there is limited academic literature on how to build an appropriate eco-system focused on delivering impact readiness in social sector organisations. This thesis will explore the literature that exists and seek to address this gap.

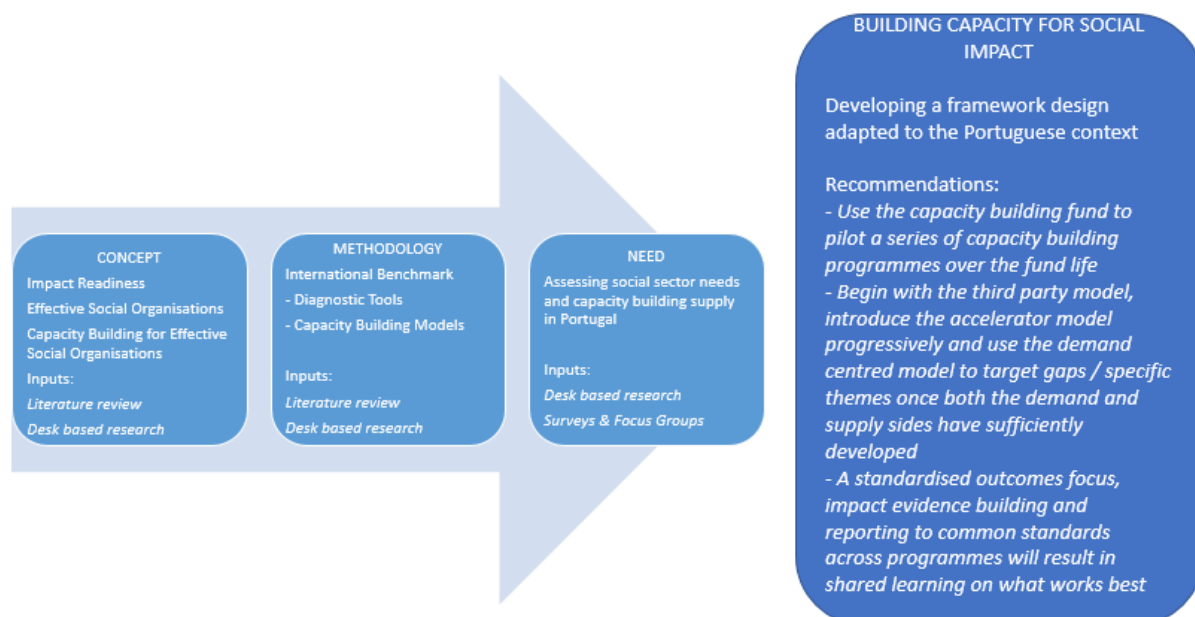
One of the key objectives of Portugal Inovação Social will be to develop a social sector capacity-building framework, which will improve the management and organisational capacities of social sector organisations in Portugal. The key aim of this work and the thesis will be to provide guidance to the Social Investment Laboratory and ultimately the Taskforce on how to (i) promote and design a capacity-building initiative, (ii) identify social organizations that will benefit from these funds and support the

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intermediaries that will help deliver impact readiness, and (iii) most effectively allocate funds to make those organisations impact ready.

### Workflow

The thesis workflow was as follows:



Input from the surveys and focus group involved undertaking a review of recent third party surveys analysing the Portuguese social sector as a whole and specific groups within it e.g. non-government organisations, social enterprises, etc. These surveys were supplemented by findings from a focus group with 17 intermediaries hosted by the Taskforce to discuss a capacity building programme for the Portuguese market and a survey sent to focus group attendees designed to provide more detailed insight into any capacity building services they provide and their views on social organisations' needs. Limitations of this methodology include: (i) the limited response rate to the survey of intermediaries (n=8) which suggests its findings cannot be considered statistically representative, (ii) the lack of bespoke, sector wide surveys to gain a better understanding of both the supply and the demand side of the market for capacity building across Portugal, and (iii) the absence of detailed interviews with a range of market stakeholders which could have supplemented the findings of this work and improved its recommendations through providing a "real world" context.

### Key Findings and Recommendations

Social impact is the effect of an activity that produces a positive and significant change in the life of the social organisation's beneficiaries as well as for any other ancillary beneficiaries. Impact readiness is the state of a high-performing social sector organisation when it is capable of reliably producing social outcomes.

A review of the literature suggests there are a number of common characteristics attributed to effective organisations with some additional organisational characteristics required for delivery of social innovation. The most successful capacity building programmes were found to be those that adopt a tailored, comprehensive and systematic approach, use diagnostic tools and take into consideration the WHY, WHO, WHAT, HOW, WHERE and WHEN of support.

A review of the international benchmark shows that 3 models of capacity building have been used: third party, demand centred and accelerator models, each of which has its own advantages and disadvantages. Within Portugal, the impact readiness of social organisations was found to be low while on the supply side, the provision of capacity building for effective organisations in delivering social impact is relatively shallow and under-developed. This led to the three key recommendations for the design of a framework provided above.

## **1. CONCEPT: Impact Readiness in Social Organisations**

### **1.1 Why look at capacity building for impact readiness?**

Capacity building is widely recognized in both the social sector and development work as being key to the successful delivery of an organisation's mission. This was the subject of a recent report called (Impetus Private Equity Foundation, 2014), which was prepared for the G8 Social Impact Investing Taskforce and informed the G8 taskforce's final report "Impact Investment: The Invisible Heart of Markets" (G8 Social Impact Investing Taskforce, 2014).

The report focuses on the need to build organizational capacities which are key to reliably producing social outcomes and successfully resolving the most pressing social issues. This is impact readiness and requires a focus on capabilities such as performance management. Impact readiness in organisations means they can reliably and predictably produce meaningful social outcomes, which can then be scaled to reach larger numbers of people once outcomes have been proven. This is different to creating strong, resilient organisations that can increase their impact through growth, which typically requires financial and management capacities. To date this is where the most effort in capacity building, both in terms of funding and skills, has been devoted in attempts to grow social finance markets globally and has led to a gap in capacity-building for impact readiness.

Finance is probably the best served area of provision for social ventures, and has been the primary focus of building the social finance market over the past decade or more. This is generally based on the principal if capital is supplied, demand for social finance will follow or "build it and they will come". The finance that has been made available, however, has largely been directed into "sure bets" that can already demonstrate their ability to deliver outcomes as well as a financial return. As the available finance has generally been found to exceed the demand from social organisations ready for this type of finance, there has been an increase in dedicated capital to building investment and contract readiness e.g. the £10m UK Cabinet Office's Investment and Contract Readiness Fund and the £20m BIG Potential Fund. High-risk, long-term finance (sometimes described as "patient" or "builder capital") required by social ventures at the start-up stage has been more limited and a gap has emerged in funding required by organisations specifically to develop their impact readiness (Tomorrow's People / Can Cook, 2013).

Furthermore, the move to payment-for-results contracts, social impact bonds and programme focused grants may also have exacerbated this gap in capacity building for social impact. Such efforts reward organisations only for specific programmes and outcomes achieved but do not provide the more general funding or adequate working capital / profitability required for social innovation and research or capacity building. This often leaves social organisations without sufficient capital to invest in the organisational

development required to enhance impact (Aleron, 2013), or in the performance measurement and evaluation required to demonstrate outcomes or evidence of success required to win such funding and contracts (Bridgespan Group, 2004). This spending is often described as spending on “good overheads” and the gap in funding for same has been highlighted as a barrier to social organisation's ability to undertake capacity building for impact.<sup>1</sup>

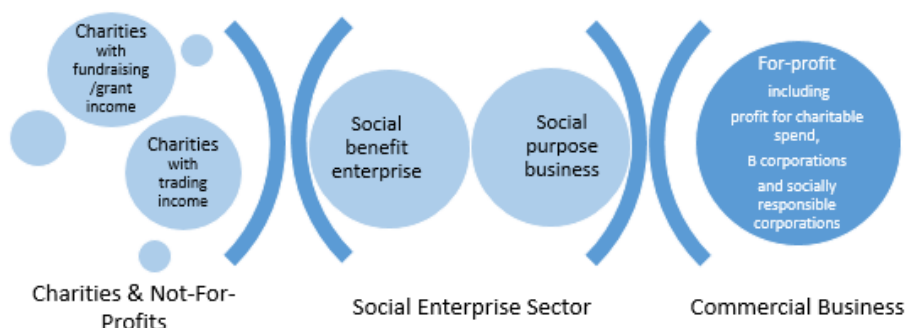
Finally, while the growing focus on impact measurement and reporting within the social sector is welcome and spending for capacity building has increasingly been dedicated to this area, impact measurement itself is a tool for impact delivery and does not equate to managing for impact. Non-profits themselves understand that “while impact measurement can help them understand the differences they make, it doesn't address the need from the organisations' side for the capacity and/or capabilities to use that tool in order to manage their performance, improve their services, think strategically and allocate their resources in ways that makes the biggest difference in their beneficiaries' lives”. (New Philanthropy Capital and Views, 2011)

A review of the literature pinpoints other barriers to capacity building, some internal to social sector organisations and some external. These are discussed in further detail in Appendix 1. Portugal Inovação Social will seek to prevent this gap in capacity building becoming a problem in the Portuguese market from the beginning. For this work to be sustainable beyond the life of the fund, the proposed framework for capacity building will need to be designed so that that the ecosystem addresses these barriers also.

### 1.2 What are social sector organisations, impact readiness and capacity building?

Social sector organisations are organisations that by definition aim to achieve a social impact in their work. These can range from charities, fully reliant on grant funding and donations, to for-profits companies with a social mission. In between are social benefit enterprises, which have a social objective as the core of the business' purpose with limited or no profit distribution e.g. co-operatives, and social purpose businesses, which derive their income from commercial activities but deliver a product or service that has a high social impact and/or profits are generated with the intention of maximising social impact rather than private wealth. (Venturesome, 2008), (Foresters Community Finance, 2010). This is also consistent with the definition utilised for EC's Social Entrepreneurship Funds.

*Figure 1 Range of Entities within the Social Sector*



**Source:** Author's own adapted from Venturesome (2008)

<sup>1</sup> This has also been called the “Starvation Cycle” and is discussed in detail in the following Stanford Social Innovation Review article [http://www.ssireview.org/articles/entry/the\\_nonprofit\\_starvation\\_cycle/](http://www.ssireview.org/articles/entry/the_nonprofit_starvation_cycle/)



In the Portuguese economy, approximately 5,000 organisations within the social sector have the legal status of Private Institutions of Social Solidarity ("IPSS"). These non-profit institutions have a long history of social activity in Portugal (over 500 years) and are created by private initiative, with the purpose of giving organized expression to the moral duty of solidarity and justice between individuals. They deliver their goals through the provision of good and services. Associations, misericórdias (mercies), foundations of social solidarity, social and parochial centres and institutes of religious organization can all be registered as an IPSS. In addition, the Portuguese social sector includes non-IPSS misericórdias, mutual and foundations as well as co-operatives, philanthropic associations and for-profit entities with a double bottom line or social mission. All organisations which have a social mission within this range will be considered part of the social sector economy which is the subject of this report.

Social impact is the effect of an activity that produces a positive and significant change in the life of the social organisation's beneficiaries as well as for any other ancillary parties<sup>2</sup>. Organisations that target significant social impact need to do so both in breadth, i.e. reaching a significant number of people, and in depth i.e. effecting a significant improvement in the quality of life of people who have significant needs. The ultimate measure of the social value created by an organisation are the long term outcomes and/or changes in its target population that can be linked to its actions.

Impact readiness can then be considered to be the state of a high-performing social sector organisation when it is capable of reliably producing social outcomes. This differs from investment readiness and contract readiness – all organisations in the social sector can and should strive to be impact ready i.e. to deliver on their social mission, whereas only those organisations that are sufficiently developed will seek repayable finance or bid on pay-for-results contracts (as this requires additional capacities such as contract negotiation, legal and financial knowledge, etc.).

As suggested by the definition of impact readiness, an organisation will require certain capacities to be considered impact ready and capacity building may be required to build these capacities or its impact readiness. In the literature, definitions for both capacities and capacity building are widely discussed but there is generally no consensus on a definition of both. However, the paper "Capacity Building: Investing in Not-For-Profit Effectiveness" (PWC Canada Foundation, 2011) offers a synopsis of how these terms are used and form the basis for the following definitions for the purpose of this paper:

"Organisational Capacity is a range of interrelated components that give an organisation the ability to perform effectively – to do the right things in the best way to achieve their mission" (the WHAT) and "capacity building is activities and/or actions put in place to support and strengthen core capacities within an organisation to improve its performance and impact" (the HOW).

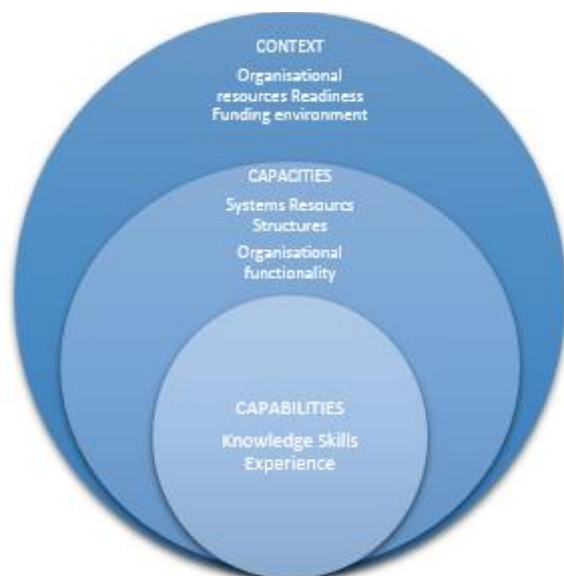
In addition, some organisations in the field of capacity building in the social sector, such as the BIG Lottery Fund, the World Bank and TCC Group, break the WHAT down further to distinguish between (i) capabilities – this is the ability to undertake and promote action which requires the right skills, knowledge and experience, and (ii) capacity - the ability and organisational functionality to use capabilities to meet

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<sup>2</sup> Adapted from the following Impetus PEF blog article [http://www.impetus-pef.org.uk/blog/why-arent-we-driven-by-impact/#.VUjQ\\_SFVikp](http://www.impetus-pef.org.uk/blog/why-arent-we-driven-by-impact/#.VUjQ_SFVikp)



**Figure 2** The HOW and WHAT of Capacity Building



**Source:** Author's own adapted from TSCR (2014)

their social mission e.g. the capacity to think or act. This is summed up by the BIG Lottery Fund as “capacity describes how much you can do and capability describes how well you can do it.” It notes that while the two concepts are distinct, they are also interdependent e.g. for an organisation to concentrate on building capabilities it needs to have the available time (capacity) to plan, organise and reflect on developing new skills. The final element that needs to be considered in capacity building for impact readiness is the context of the organisation. This applies by defining a third layer of the WHAT to include the organisation's context, e.g. stage of development, organisational readiness, etc.

### 1.3 What are the common characteristics of effective social organisations?

Organisational capacity is considered to be a wide range of inter-related capabilities, knowledge and resources that give social sectors organisations the ability to do the right things in the best way and is required for impact readiness. Organisational effectiveness is their ability to successfully deliver greater social benefits i.e. impact.<sup>3</sup> Therefore, impact readiness and organisation effectiveness are inter-related for social organisations whose primary (or only) goal is to deliver social impact. In particular, for small organisations their ability to deliver agreed project outcomes is very dependent on the effectiveness of the organisation as a whole so there is little distinction to make between capacity building to enhance programme outcomes and capacity building to strengthen the organisation as a whole in pursuit of its mission. (IVAR, 2010) For larger organisations, capacity building for organisational effectiveness, rather than more narrowly focusing on specific programme outcomes, is an empowerment approach that enhances its performance and the stability of the organisation in delivering social impact.

A large number of social sector participants have an interest in understanding and assessing social organisations' effectiveness e.g. foundations, venture philanthropists and impact investors, consultants and intermediaries (for the purpose of advising both investors and social organisations), social hubs and accelerators as well as the social organisations themselves.<sup>4</sup> As a result numerous frameworks have been developed to provide a common vision and vocabulary for non-profit capacity and capabilities amongst market participants. These frameworks also help organisations and capacity builders understand organisations as a linked set of capacities that are best understood in relation to each other and allow for the prioritisation of some capacities over others e.g. management and technical skills are

<sup>3</sup> “Effectiveness” is defined in the Oxford Dictionary as “the degree to which something is successful in producing a desired result”.

<sup>4</sup> A discussion of industry participants who have an interest in social impact and organisational effectiveness is provided in Appendix 2

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often seen as secondary in priority as their specifics derive from a compelling vision, inspiring people in service of it, and understanding if and how that vision is being achieved (TCC Group, 2014).

Other tools relevant to organisational effectiveness are criteria lists, typically utilised by investors as a screening tool for investment purposes, and guidelines, used by umbrella groups to help raise quality standards amongst its participants. These frameworks, criteria lists and guidelines typically provide a set of characteristics and capacities that an organisation needs to possess in order to be considered effective.

Appendix 3 provides an overview of the body of grey literature on building effective social organisations that has been produced over time by these market participants. In addition, an overview of some of the most widely used or influential frameworks and guidelines globally (e.g. McKinsey, TCC Group, Ontario Trillium Foundation, the Performance Imperative), along with proprietary checklists or criteria used by impact investors (e.g. Impetus-PEF, Venture Philanthropy Partners, Fledge and Echoing Green) is provided in Appendix 4. Based on an analysis of the literature and the frameworks, criteria lists and guidelines reveals that the most commonly identified criteria for effective social organisations, the key characteristics when categorised along the lines of the 4 pillars of TCC Group's framework, include the following:

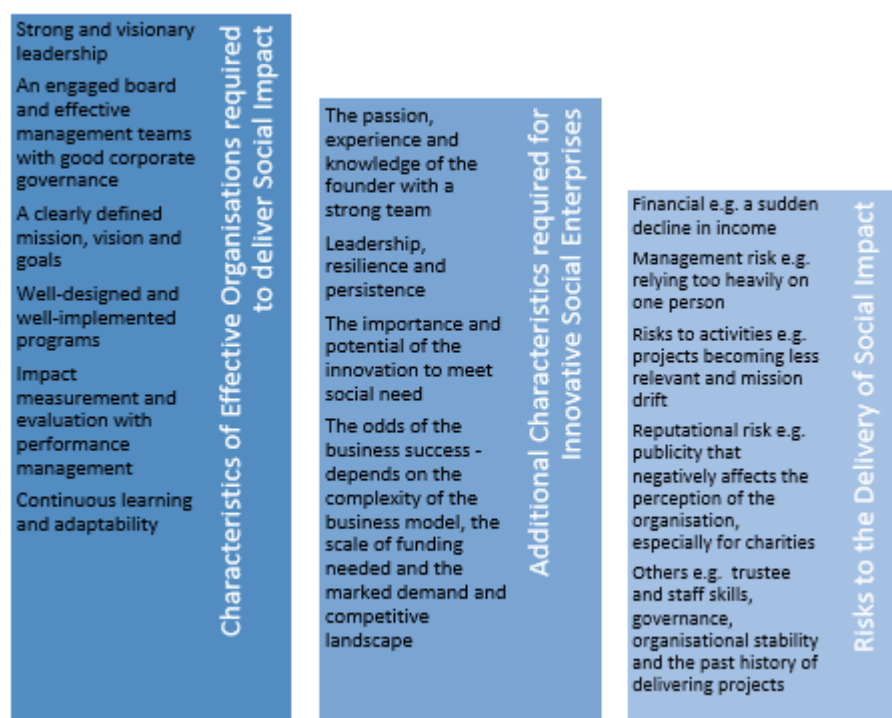
**Figure 3** Key Characteristics of Effective Social Organisations

Aspirational and Adaptive Capacity	Leadership Capacity	Management Capacity	Technical Capacity
<input type="checkbox"/> Well defined vision, mission and goals <input type="checkbox"/> Effective strategy plans and change management <input type="checkbox"/> Planning and decision making <input type="checkbox"/> Performance management <input type="checkbox"/> Continuous learning and improvement <input type="checkbox"/> Culture and values <input type="checkbox"/> Collaborations, partnerships and external relationship building	<input type="checkbox"/> Aspirational and visionary leadership <input type="checkbox"/> Strong boards and good corporate governance <input type="checkbox"/> Disciplined, people focused management <input type="checkbox"/> Transparency and accountability <input type="checkbox"/> Effective management team (C-suite) <input type="checkbox"/> Board, executive and management development	<input type="checkbox"/> Staff and volunteer management <input type="checkbox"/> HR development <input type="checkbox"/> Internal communications <input type="checkbox"/> Financial management <input type="checkbox"/> Resource management <input type="checkbox"/> Internal monitoring for continuous improvement	<input type="checkbox"/> Theory of change and well-executed service delivery <input type="checkbox"/> Impact measurement and evaluation <input type="checkbox"/> Fundraising and earned income generation <input type="checkbox"/> Accounting and financial stability <input type="checkbox"/> Administration, IT and systems management <input type="checkbox"/> Marketing and communications <input type="checkbox"/> Outreach and advocacy

**Source:** Author's own

While many of the commonly listed characteristics are required by all good organisations, both in the not-for-profit and for-profit sectors, some are unique to social sector organisations e.g. theory of change. In particular, impact measurement and evaluation for performance management, are considered key to unlocking more effective impact delivery. In addition, the following appear to be the most valued characteristics for social organisations, additional considerations for social enterprises at the start-up / ideas stage and some of the key risks to an organisation's effectiveness are provided in figure 4 below. Finally it should be noted that it is "the many variables relating to leadership, strategy, organizational capability and market conditions that are the real factors driving success or failure of social organisations and it is ... this complex interplay of people and organizations that helps determines the business outcomes or its social impact." (Monitor Group / The Acumen Fund, 2012)

**Figure 4** Characteristics and Risks of Effective Social Organisations



**Source:** Author's own

#### 1.4 How does capacity building for impact readiness change across the social sector?

The context of the organisation is one of the most important factors for capacity building of any nature and this is true also when it comes to capacity building for impact in social organisations. As well as addressing the capacities and capabilities, well-designed programmes need to be tailored to the situation of the social organisation. Given the diversity of the organisations within the social sector, it is clear that broad generalisations and one-size-fits-all solutions to capacity building are unlikely to be suitable for addressing the needs of all organisations within the sector and to be an effective use of capacity building resources. Therefore it is important to consider segmentation of the market according to factors such as the size of the organisation, the type or goal of the organisation and its age or stage of development, as well as allowing for contextual factors unique to each organisation such as its readiness for change, change capability, funding, etc.

In the literature that exists on differences in the needs of organisations across the social sector (see Appendix 5 for a full review), my analysis shows that capacity building needs across the social sector can be segmented according to the following factors:

Context Factor for Segmentation	Supporting Literature
Size by revenues / number of staff / number of beneficiaries	(IVAR, 2010), (Isserman , 2013)
Development Stage – General	(Third Sector Research Centre, 2014), (Arrivo Consulting, 2012)
Development Stage – Social Enterprises	(Young Foundation / NESTA, 2011), (Monitor Group / The Acumen Fund, 2012) (Social Investment Lab, 2014)

Type of Organisation / Social Need Addressed	(Young Foundation / NESTA, 2011)(Tomorrow's People / Can Cook, 2013)
Other – certain groups have specific needs e.g. organisations in crisis, location	(Third Sector Research Centre, 2014)

### 1.5 What do we already know about successful capacity building for impact readiness in the social sector?

There is a gap in the academic literature on effectively measuring the outcome of capacity building to increase the impact of social organisations and how to build an appropriate eco-system for both investment and impact readiness in social sector organisations. This is widely acknowledged in the academic, grey and practitioner literature that does exist (Mulgan & The Young Foundation / NESTA, In and Out of Sync: The challenge of growing social innovations, 2007), (Third Sector Research Centre, 2014), (Center for Effective Services, 2011) (AIDSTAR-Two / US Aid, 2010) . The Third Sector Research Centre found that there have been no studies to date on whether organisational development can lead to benefits for social organisations' end users or beneficiaries. This was also highlighted by the Centre for Effective Services and the report "Learnings from Failures in Venture Philanthropy and Social Investment" notes the following: "Despite the massive need for non-financial support it is generally difficult to quantify impact or benefit." (EVPA, 2014)

However, there have been a small number of recent papers which have undertaken detailed reviews of the existing literature (both academic and non-academic) in an attempt to draw together what is already known on capacity building for social impact. The most comprehensive of these is "Building Capabilities in the Voluntary Sector" (Third Sector Research Centre, 2014) undertaken on behalf of the BIG Lottery Fund in the UK. Earlier reviews of the existing literature include "Capacity Building: What the Literature Tells Us" (Center for Effective Services, 2011) and "Challenges Encountered in Capacity Building" (AIDSTAR-Two / US Aid, 2010), which largely came to the same conclusions as the Third Sector Research Centre ("TSRC") report, albeit in less detail. To supplement these findings, Appendix 7 provides an overview of the practitioner documents included in my literature review that support each of the conclusions reached in TRSC's report. (Please note this supplementary review is not exhaustive or intended to reflect the full extent of literature available on the topic.) Appendix 8 provides an overview of how the key elements of Inspiring Scotland's capacity building programme, widely considered as an exemplary model for the social sector and has been independently shown to result in enhanced social impact for its investees, puts into practice many of the findings of the TRSC report.

TRSC notes that "there are no singular intervention types or funding models that are yet proven 'to work'". It does however report that "the key to successfully building the effectiveness of any organisation to deliver 'more impact' is a tailored approach where the exact ingredients vary according to the unique characteristics and state of the organisation". It also found that there is an important interdependency between how much an organisation has the capacity to do and its capabilities or how well it can do what it does. This means that unless an organisation has the capacity to give attention to the organisation's development, building capabilities alone is unlikely to deliver effective, sustainable outcomes.

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In addition to an overarching need for a tailored approach, the TSRC report found that adopting a comprehensive and systematic approach to capacity building will mean that it is more successful (Venture Philanthropy Partners / McKinsey&Co., 2001), (Ontario Trillium Foundation, 2005). It also found elements central to any good capacity building to be as follows:

Key Elements of Capacity Building for Impact	Supporting Literature
The Purpose of Support (WHY)	(Young Foundation / NESTA, 2011), (TCC Group, 2009), (Ontario Trillium Foundation, 2005)
There are usually 3 key stakeholders – the funders who could be strengthening the organisation as a whole, strengthening the sector or enhancing specific project or programme outcomes; the providers, which may be the same as the funders or third parties; and the recipients, whose objective could be grant compliance, to deliver what they already do better or to deliver more or differently. To be successful the goals of these stakeholders will need to be aligned.	
The Targets of Support (WHO)	(Dasra, 2012), (Ontario Trillium Foundation, 2005)
This can be individuals, organisations, sectors, foundations or the grant givers themselves, intermediaries or the wider ecosystem.	
Methods of Support (WHAT)	(Big Lottery Fund, 2011), (IVAR, 2010), (ClearlySo & NPC / The Big Lottery Fund, 2012), (Bridgespan Group, 2004)
Capabilities are built through learning. Support can be achieved through a wide variety of mechanisms including information and advice, training at the individual, organisation or sector level, consulting, monitoring and peer learning. Each of these lead to different outcomes, different outcome levels and may be more or less effective in different contexts e.g. facilitation and training can lead to organisation wide benefits, mentoring leads to individual benefits and peer learning may be one of the most effective ways of promoting organisational effectiveness. In addition, more in-depth or one-to-one type support may be best to deal with strategic issues while less intensive support may be adequate for developing systems, processes, skills and external relationships.	
Mode of Support (HOW)	(Venture Philanthropy Partners / McKinsey&Co., 2001), (Ontario Trillium Foundation, 2005), (Young Foundation / NESTA, 2011)
How the methods of support are tailored, combined and delivered appears to be equally, if not more, important than the actual methods themselves. Tailoring or adjusting methods and content to support specific needs seem to make it most effective. Adapting a comprehensive approach, so that individual capacity methods are combined or blended, can lead to stronger and/or more stable outcomes. Other important factors include: (i) the mode of delivery (internally, peer to peer or external expertise), (ii) the duration of the intervention (longer term support from a long term source is considered most valuable, although short term options can play a role too), and (iii) ensuring the organisation as a whole (not just individuals) are engaged.	
The quality (capabilities and capacities) of the individuals and organisations providing the capacity building report is crucial to its success. A relationship of trust between the provider and the recipient is also important.	

The Support Context (WHERE & WHEN)	(ClearlySo & NPC / The Big Lottery Fund, 2012), (NESTA, 2014) (Venture Philanthropy Partners / McKinsey&Co., 2001), (Ontario Trillium Foundation, 2005), (Bridgespan Group, 2004), (Young Foundation / NESTA, 2011)
<p>The context of capacity building is also one of the most important factors in determining its success. The internal context of the organisation itself is important - it is crucial that the organisation has both the capacity and capabilities to engage in the capacity building process e.g. having the time to through the process, attend training sessions, etc. The commitment or buy-in of management and governance teams will also impact the effectiveness of capacity building. Furthermore the organisation's stage of development will not only influence the capacity building requirements but also how it engages with capacity building programmes. Similarly, ethos and culture can influence the organisation's appetite and ability to change.</p> <p>These factors can be summed up as the organisation's readiness for capacity building and depends on when they are at a certain stage of development, have a leadership committed to learning and developing, when they have capacity to dedicate resources and implementation.</p> <p>The external context that will influence the success of capability building programmes also includes factors such as the policy and funding environment, the market demand or willingness to pay for a product or service, etc.</p>	
Diagnosis Improves Support	(Ontario Trillium Foundation, 2005) (Center for Effective Services, 2011)
<p>There is widespread consensus on the value of diagnosis, as it provides a way for capacity builders to help identify and prioritise the needs of social organisations, particularly for those organisations that might otherwise struggle to identify their own needs. This crucial first step allows a systematic assessment of needs and then capacity building intervention is tailored to meet the social organisations' specific requirements.</p> <p>How the diagnostic process is carried out matters, the skills of the diagnostic providers is key, as is integration of the diagnostic result into tailoring the support package. The diagnostic process in its own right may be an important capacity building tool that allows organisations understand their strengths and weaknesses, which can lead to organisational change also.</p>	

### 1.5 Capacity Building for Impact Readiness in Social Organisations – A Summary

- Capacity building for impact readiness has largely been overlooked in building social finance markets to date. This gap in the market may be attributed to barriers to capacity building such as the absence of long-term, risk finance, a lack of working capital and/or profitability allowed for spending on organisational development and a lack of focus on performance measurement to accompany the growing focus on impact measurement.
- In Portugal, social sector organisations include everything from charities, mutuals, co-operatives and associations to for-profits with a social mission or double bottom line many of which are designated with the IPSS status. All will be considered for the purpose of this report.



- Social impact is the effect of an activity that produces a positive and significant change in the life of the social organisation's beneficiaries as well as for any other ancillary parties while capacity building is activities and/or actions put in place to support and strengthen core capacities within an organisation to improve its performance and impact.
- Delivering impact and effective social organisations are inter-related so understanding what makes an effective social organisation will help to determine what is required to build capacity for social impact. Key characteristics of effective social organisations are widely considered to be strong and visionary leadership, an engaged board and effective management teams with good corporate governance, a clearly defined mission, vision and goal, well designed and well implemented programmes, impact measurement and evaluation with performance management and continuous learning and adaptability.
- The context of organisations is also important when assessing the social organisations' needs for capacity building. Relevant factors are size, stage of development, type of organisation / social need met and certain sectors have specific needs e.g. social enterprises for innovation.
- Adopting a tailored, comprehensive and systematic approach is required for successful capacity building programs. In addition consideration needs to be given to the following factors: the purpose, the targets, the methods, the mode and the support context. Use of a diagnostic tools is also a key factor for delivering such capacity building programmes.

## **2. METHODOLOGY: Measuring and Addressing Impact Readiness – International Benchmarks**

### **2.1 How do existing diagnostics tools measure the impact readiness of social organisations?**

The process of capacity diagnosis is considered an important first step in capacity building programmes for social organisations and the diagnostic process itself can be a valuable organisational development process. Diagnostic tools “form the basis to move beyond a theoretical discussion to assess capacity, identify needs, identify interventions, attract and align resources, develop partnerships/collaborations, and evaluate, track and learn from capacity building initiatives.” (PWC Canada Foundation, 2011). These tools typically help identify an organisations' strengths and weaknesses which in turn allow a diagnosis of the 'need' - this could include fortifying an already strong capacity area as well as improving on weaker areas. (TCC Group, 2014).

The use of such diagnostic tools has also been incorporated as a key component at the application stage into many of the capacity building programmes globally, especially demand centred models in use in the UK. There are a range of diagnostic tools in use today by industry participants. However there is little research done on the comparative effectiveness of specific tools and the outcomes produced by using same.<sup>5</sup> The following diagnostic tools in use globally today were compared: TCC Group's CCAT and McKinsey's OCAT 2.0 are the most commonly referenced by practitioners, Bond is a UK body for development charities in the UK and provides an example of a tool used in a related field while the Voluntary Community Services Assist is a capacity building programme and this tool was created for

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<sup>5</sup> Appendix 9 for a review of learnings about the diagnostic tools found within the grey literature on capacity building along with some insights provided into good practice when using these assessment tools



## Understanding Impact Readiness in Portugal's Social Sector and Designing a Framework for Capacity Building for Social Impact

use in that programme by Rocket Science. This comparison revealed the following common and special features:

**Figure 5** A Comparison of Diagnostic Tools

	TCC Group's CCAT	McKinsey's OCAT 2.0	Bond Healthcheck Indicator	VCS Assist Assessment Tool
# Pillars	4 core + culture	10	11	5 core + financial
# Questions	146	123	79	35
# Levels/Ranks	N/A	4	5 (nascent, evolving, maturing, flourishing, leading)	4
Who?	Management + 2/3 board member	Leadership team + some/all board + key staff	Light touch – 1 team only, moderate - all teams or in-depth approach – board, executive, all staff + external e.g. partners	
Outputs:	Organisational Strengths & Weaknesses	Org. Strengths & Weaknesses	Organisational Strengths & Weaknesses	Org. Strengths & Weaknesses
	Priority Areas	Priority Areas	Priority Areas	Priority Areas
		Review of Internal Responses	Review of Internal Responses	
	External Benchmark e.g. by budget size, service need, programme type (using 1,000+ org. results)		External Benchmark e.g. org. size, work theme, programme type, assessment approach	
	Lifecycle Score			
Availability	Pay	Free	Free	Free

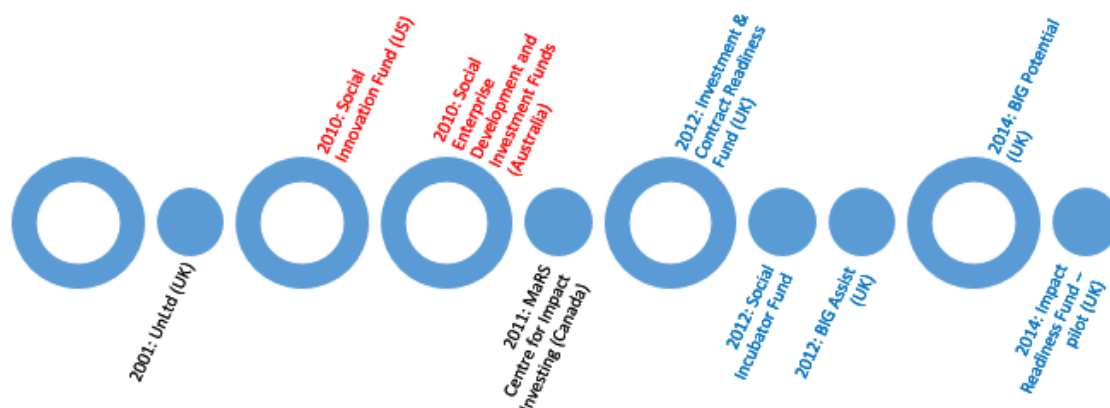
**Source:** Author's own

### 2.2 How do international social finance ecosystems address capacity building for social impact?

Generally, there has been a gap for capacity building for social impact in the social finance market globally. However, there have been a number of initiatives focused on building the demand side of the market alongside and these have incorporated capacity building elements for social organisations. These programmes will be used as an international benchmark to provide insights into what works for the purpose of designing a framework for the proposed capacity building fund in Portugal.

In addition to the details found on the various programme websites, reports assessing the effectiveness of a number of these capacity building programmes were also reviewed (Corporation for National & Community Service, 2012), (Impetus PEF, 2012), (Australian Government, 2013), (BCG, 2014), (Sheffield Hallam University / TSRC, 2014), (UnLtd UK, 2014), (UK National Advisory Board, 2014). More detail on the most relevant aspects of each programme included in the benchmark are provided in Appendix 11.

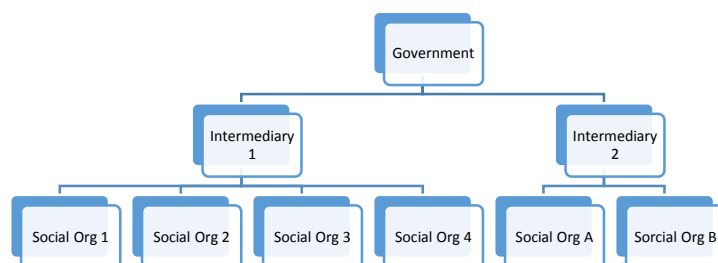
**Figure 6** A Benchmark of International Capacity Building Programmes



**Source:** Author's own

Some of the programmes examined require an investment return to be delivered while others target investment and contract readiness, rather than impact readiness. However, all include elements of capacity building which typically helps build organisational effectiveness and therefore the social organisation's ability to deliver social impact. In addition, the programme features or underlying model helps to provide valuable insights into what works and doesn't work in different contexts. My analysis suggests that these programmes in the benchmark can generally be divided into three models with the following features:

### 1. Third Party Model



#### Examples:

Social Innovation Fund (US)  
Social Enterprise Development and Investment Fund (Australia)

#### Key Characteristics:

Government provides multi-year grant funding to intermediaries (including impact investors, venture philanthropists and foundations), selected through an open and transparent competition. The intermediaries are responsible for selecting and distributing the funding along with capacity building support to social sector organisations in the way they best see fit and are responsible for reporting the outcomes of their funding initiatives to government on a periodic basis. Intermediaries and grantees may also be required to raise match funding.

#### Advantages:

- Leverages off existing expertise or helps build skills and knowledge of intermediaries - these are better placed than government to do marketing, outreach and distribute grants.
- Multi-year funding allows for longer terms programmes and the building of relationships between the grantor and grantees – both are required for effective and sustainable capacity building.

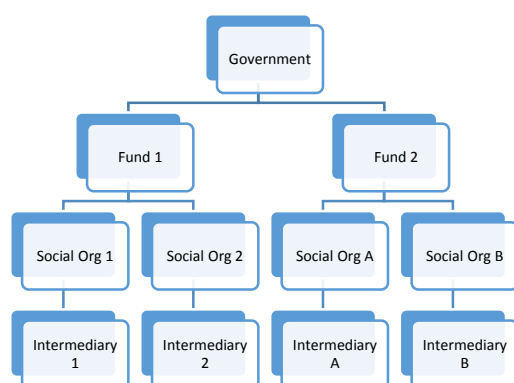
## Understanding Impact Readiness in Portugal's Social Sector and Designing a Framework for Capacity Building for Social Impact

- Allows for different types of capacity building programmes considered to be effective to be implemented simultaneously. A requirement to report on common outcomes across all programmes along with networking and other information sharing initiatives help ensure different programmes can be compared and a central source of best practice can be created.
- Centralised reporting and control helps develop consistent market standards across intermediaries and social organisations e.g. building a focus on impact measurement.
- Match funding requirements can leverages the public funds as well as helping to build the fund raising capacity of both intermediaries and grantees. This can also bring a wide range of new investors into the market through the networks of the intermediaries and organisations involved.

### Disadvantages:

- Implementation can be slower given there are two selection processes.
- Without standardised reporting requirements at government level and effective co-ordination (e.g. networking at intermediary level) learnings and best practice may be lost.
- The intermediaries may be allowed a percentage of the funding to cover own costs e.g. due diligence, administration, own capacity building which reduces the overall funding available to flow to social organisations.

### 2. Demand Centred Model



### Examples:

Investment & Contract Readiness Fund (UK)  
BIG Potential Fund (UK)  
BIG Potential Fund (UK)

### Key Characteristics:

The government, or other government sponsored funding entity, makes funding available to social organisations who apply for funding for a proposed capacity building programme. These can be up to 18 months but may be as short as 3 months or less in length. An intermediary is chosen by the social organisation from a list of pre-approved suppliers and this intermediary provides assistance in developing the capacity building programme application as well as monitoring and reporting on its implementation. For longer programmes, funding may be released only against milestones, while more recently an element of repayable finance has been introduced in grants to later stage social organisations. Use of a diagnostic tool is often required as part of the application process. While application proposals which incorporate match funding and pro-bono capacity building supports may be encouraged, it is typically not a requirement.

### Advantages:

- Provides social organisations with choice and greater ownership of their own capacity building programmes which is believed to lead to greater engagement. Use of a pre-approved providers list helps ensure the quality of intermediaries providing support services is at a certain standard.

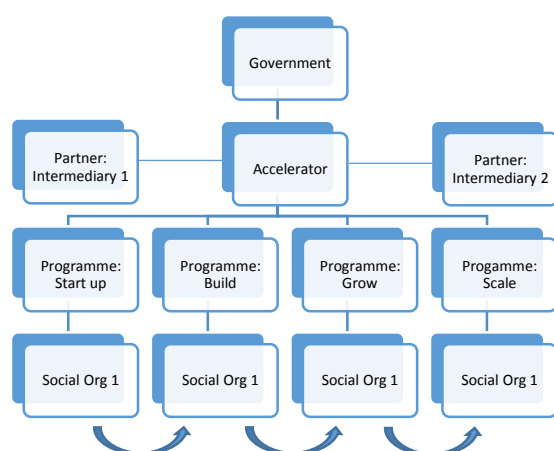
## Understanding Impact Readiness in Portugal's Social Sector and Designing a Framework for Capacity Building for Social Impact

- This model has been shown to build both the supply of intermediaries providing capacity building and the demand and willingness to pay for capacity building in social organisations supported.
- The shorter term nature of the programmes means they can be implemented quickly and often are adapted to reflect new learnings during implementation.
- These programmes can be used to effectively target specific capacity gaps identified in the market and social themes or regions favoured by the government.
- The use of a diagnostic tool during the application stage is generally considered to help build the skills of social organisations, even those who are not successful.
- This model has also been used for capacity building programmes for the capacity builders and other intermediaries e.g. the BIG Assist Fund and the Social Incubator Fund<sup>6</sup>

### Disadvantages:

- Implementation of this model can be problematic in markets where supply of capacity building support is limited and/or social organisations' knowledge and capacity to diagnose own needs is poor (albeit use of a diagnostic tool and support during the application process helps mitigate this)
- The “stop-start” and often ad-hoc way in which these programmes have been launched could result in a patchy development of the pipeline with market gaps.
- Usually requires the engagement of third parties to administer and promote the fund to ensure it meets social organisations within its target, reducing the funding for social organisations.

### 3. Accelerator Model



### Examples:

UnLtd (UK)

MaRS Centre for Impact Investing  
(Canada)

### Key Characteristics:

These are often government funded organisations that promote the growth of social entrepreneurs through providing non-funding supports, normally alongside funding support, to build organisational capacity, delivered in tailored support packages. The non-funding support typically makes use of partnerships, pro-bono service provision, mentoring and networking. Support is offered to different support programmes for different stages of development – taking social organisations from start-up/idea validation progressively through to growth/scale. At the latter stage more intensive, accelerator programmes are then offered to a smaller number of social organisations with the highest potential. They often target specific themes and/or regions and innovate with programme delivery to improve

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<sup>6</sup> See Appendix 11 for further programme details

effectiveness from learnings in the delivery of earlier programmes. They promote best practice across the industry as well as acting as centres of knowledge and learning for organisations in the social sector.

**Advantages:**

- The capacity building needs of social organisations are catered for at all stages of development so they can receive support from start up through to growth/scale stage with consistent standards and approaches applied along the way. This also helps ensure there is a pipeline of organisations focused on delivering social impact progressing through the development cycle for the supply side.
- Ensures there are no neglected or overlooked market segment. In particular, they cater to those organisations that will remain small or those that are not be able to generate sustainable revenues but who deliver valuable social impact at a local level.
- Small organisations are likely to have a limited capacity to absorb capacity building and many will not survive but they can deliver a big improvement in their organisational capacity (high risk with high return from funder perspective). Later stage organisations have a greater capacity to absorb capacity building but bespoke and expensive support and, while the organisational improvement may be the smaller, the overall impact of the capacity building may be larger due to their size (lower risk but requires higher funding for the return to funder). This naturally helps balance the funding and risk to funders across the development pipeline.
- In addition, this model incorporates a funnel effect where the number of organisations progressing to the next programme stage decreases while the support provided goes from off-the-shelf and group training on basic skills and confidence building for a large number of small / early stage organisations to more bespoke, one-to-one tailoring for a small number of larger / more advanced organisations. This funnel effect matches, therefore, matches support intensity to needs.
- These organisations provide models on how to successfully leverage networks, partnerships and pro-bono supports from both the non-profit and for-profit sectors to enhance capacity building programmes.

**Disadvantages**

- The organisations managing these programmes require skilled and knowledgeable teams on capacity building at all stages of development for social sector organisations, as well as large networks of delivery partners, mentors, pro-bono supporters, etc. This takes time to build.
- These programmes often include a finance grant element to attract social organisations' interest.

### **3. NEEDS: Impact Readiness in the Portuguese Social Sector**

#### **3.1 What do we already know from existing studies about capacity building needs and impact readiness of social organisations in Portugal?**

There are a range of studies, many published in the past year, which describe the social sector in Portugal and provide a useful insight into the current state of impact readiness of organisations in the sector along with their capacity building needs. These include the EC's country report on Portugal (EC, ICF Consulting Services, 2014), a diagnostic report on the NGO sector (Universidade Católica Portuguesa/Fundação Calouste Gulbenkian, 2015) and the European Venture Philanthropy's country focus on Portugal (EVPA, 2014). These are supplemented by IES's published mapping of the most

promising social enterprises across the country “Mapa da Inovação e Empreendedorismo Social” and the Social Enterprise Agency’s study of pro bono volunteering in Portugal (Social Entrepreneurs Agency, 2015). Within these surveys, the social sector in Portugal is generally characterised as relatively small by European terms and very heterogeneous in terms of the number and sectors in which they operate. However the social sector is a growing one and is being promoted by government as its own provision and budget for social services shrinks. There are a number of government bodies, foundations and intermediaries that provide support (including capacity building) to help develop the sector.

There are c.12,500 social sector organisations in Portugal, which includes 5,099 IPSS registered entities (associations, Misericórdias (mercies), foundations of social solidarity, social and parochial centres and institutes of religious organization), 776 non-IPSS misericórdias, mutual and foundations, 3,109 in the co-operative sector, 108 in the solidarity sub-sector of co-operatives and 3309 philanthropic associations. According to government statistics there are c.17,000 non-government organisations and when other organisations, including for profit companies, are included the number of social sector organisations rises to greater than 55,000.

Two-thirds of NGOs operate at below municipality level and typically serve a local need. 37.5% of all NGO organisations are focused on the provision of social services alone. There is an emerging group of NGOs aiming to act as umbrella organisations but with the exception of a small number of these acting in core service provision areas, typically they haven’t achieved the scale or influence to develop a voice at a national level. IES have surveyed a large number of social enterprises across Portugal and certified that around 100 of these meet their definition of ‘high potential’.

However, the measurement of social impact has not yet been established, with only 5% of social enterprises estimated to carry out strategic evaluations to measure their impact and few making use of indicators to measure social impacts in their annual reports. Other characteristically weak areas for social organisations are governance structures and strategic management plans that are in need of reform, a high use of volunteers and low wages for qualified staff. IES identified social impact assessment, fundraising and the creation and development of projects as areas with high limitations while NGOs identified in 2 separate surveys that the greatest gaps in their skills are in the following areas: marketing and fundraising and strategic management. NGOs over-reliance on public funding is also highlighted as a problem area which some are seeking to address through a move towards a revenue generating (social enterprise) model. NGO’s over-reliance on public sector funding (ranging from 40% to as high as 85% in some NGOs) is being mitigated generally by diversifying towards EU funds and to a lesser extent by charities beginning to explore market revenue opportunities. EU funding was also identified as an important source of investment for social enterprises in MIES with 45% of funding came from EU programmes, 30% coming from private companies and private foundations accounted for 16%.

On the intermediary side, Portugal has organisations that cover the full range of support services typically required on the supply side of the market. Even though this segment of the market is growing, for each category of non-funding support there is typically only a small number of organisations that have been identified as providing that particular service. In addition, the support outreach of organisations that do exist is limited so that it can be difficult for social organisations to know how to find

or access the relevant supports. Investment readiness support have been identified as missing from the market to date. In addition, there is an underutilisation of pro bono professional services in the social sector. Suggestions to address this include: (i) promoting the merits of volunteering through sharing professional skills (particularly relative to donation of time in classical volunteering works), (ii) helping social organisations to access and absorb pro bono services effectively on the demand side, and (iii) setting up an intermediary specialising in matching both sides as well as promoting the use of pro-bono professional services in Portugal.

### 3.2 What additional information was gained from the focus group on capacity building hosted by Portuguese Social Investment Taskforce?

The Social Investment Taskforce, is an initiative to catalyse the social finance market in Portugal and draws on the contribution of a variety of local sector members as well as interested parties from private and public spheres. One of its three work streams focuses capacity building. In April 2015, this taskforce held a focus group attended by 17 of the leading organisations active in the area of capacity building to discuss proposals for the design of the capacity building fund in Portugal. To supplement the findings from the focus group, attendees were also invited to respond to a survey created for the purpose of this paper and designed to gain more in-depth detail on their provision of capacity building to social sector organisations along with their insight into the sector's capacity building needs. Appendix 13 provides the details of this survey.

While this survey was completed by just 8 organisations and therefore cannot be considered to provide a statistically robust representation of the sector as whole, it provides the following additional insights:

- There is a large diversity in size amongst the specialist consultants who relied - half provide capacity building to 100-200 clients or projects while some reported capacity building for less than five cases.
- Business and strategy planning and funding applications are the most supported areas for social organisations while the more important capacities for delivering social impact such as leadership and board training, performance management and change management (along with basic business supports) are the least provided. Own ability to support general business skills and networking capacity was ranked most highly while own ability to support capacities such as leadership and management training key was also noted as weaker. Provision therefore matches the areas of their strength according to the providers but may leave gaps in important capacities for social impact.
- Based on their knowledge of the social sector, these intermediaries ranked programme delivery and impact management followed by networking as the highest priority for social organisations needs in capacity building. In contrast they ranked the need for leadership, board and management training as low. Therefore the gap in supply may reflect providers' gap in knowledge. They believe that a lack of capacity to undertake capacity building (e.g. time and staff resources or capabilities to absorb support followed by a lack of knowledge or inability to identify their own capacity building need) are the greatest barriers.
- Group training is the most frequent delivery method following by one-to-one support. The latter is split equally between standardised and tailored support. Support is intensive with most respondents indicating they spend more than 5 days each months with social sector clients.

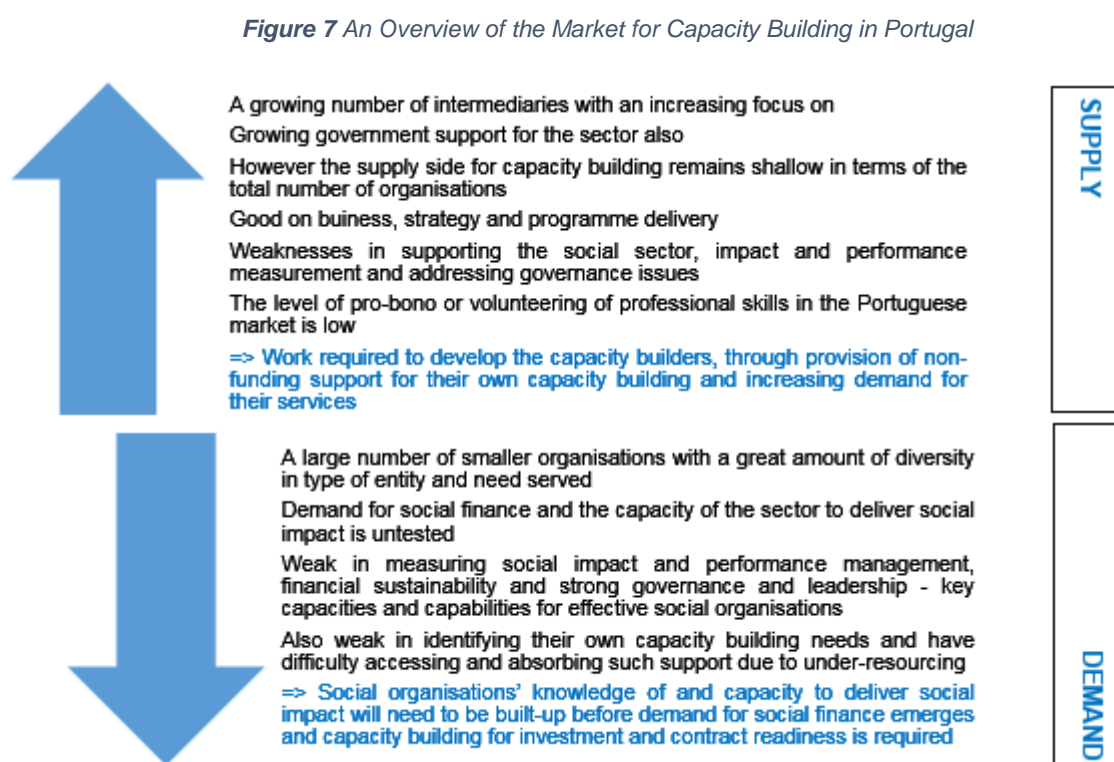


- Client satisfaction is used to assess capacity building programmes – some organisations also reporting measures an increase in the organisational effectiveness and improvements in outcomes for beneficiaries, while others report measuring only client satisfaction. A range of options such as diversity of staff (mix of public and third sector), undertake organisational learning, use of diagnostic tools and assessments of progress to ensure they meet clients' needs

The results of the survey and discussion within the focus group are consistent with the picture reported by the surveys of the social sector in Portugal in terms of the reported needs of social organisations and weaknesses in the support providers' capacity to deliver capacity building programmes. It is also noteworthy that weaknesses on the demand and supply side are also consistent with international reports of how the social finance market typically develops. (SEDIF update report, The Young Foundation/NESTA, 2011)

### 3.3 The results – what does impact readiness in Portugal's social sector look like?

Combining the findings from the third party surveys and reports with the insight into the demand for capacity building and the supply of capacity building supports in the Portuguese social sector results in the following sector overview:



**Source:** Author's own

#### **4. PROGRAMME DESIGN: Recommendations for a Framework for Capacity Building for Impact Readiness in Portugal**

##### **4.1 The context of framework for capacity building for impact readiness in Portugal**

The level of impact readiness in social organisations in Portugal is generally low despite its innovative intervention models. Moreover, there seems to be no general awareness of the need or their ability to access capacity building, which might be due to two reasons: they cannot afford to pay for it or they have no incentives to access support services. In particular, impact evaluation, performance management and leadership and governance have been identified as areas of organisational weakness in the sector. On the supply side, i.e., those who can provide such services, there are a group of intermediaries who provide capacity building support through a range of delivery methods but the number of providers in the market is low, supports are skewed towards group or off-the-shelf delivery methods and the capacity (or focus) of these support organisations to provide support in 'social sector' specific, areas such as leadership, management and governance, and performance and change management, is currently significantly below the market needs.

Therefore, a key priority of the framework for capacity building will be to increase social organisations' awareness of impact readiness and their demand for support to build same while also increasing the focus and capacity of intermediaries (both existing and new entrants) to build their expertise on delivering this particular type of support. Beyond financial support to intermediaries, there may be a need to provide them with training on how to combine capacity building support focused on areas key to delivering social impact with areas of existing expertise available in the market to produce the tailored and comprehensive capacity building packages considered key to building effective social organisations.

Portugal Inovação Social will play a key role in designing in the most appropriate sequence of capacity building programmes to help increase the capacities of both sides of the market. In addition, it should also play a key role in (i) building the sector's focus on delivery and evidencing of outcomes, (ii) gathering and sharing centralised learning on best practice and what doesn't work when providing capacity building support in the Portuguese social sector, and (iii) helping organisations, both social organisations and intermediaries, to build networks, partnerships, mentoring and pro-bono supports so that all resources in the non-profit and for-profit sectors are used efficiently and effectively in the sector's capacity building programme. The common market standards, methods of best practice and networks created by Portugal Inovação Social should continue beyond the fund's term life, which will enhance the effectiveness of social organisations and the delivery of social impact on a sustainable basis.

In designing a framework for the proposed capacity building fund for impact readiness, Portugal has the opportunity to put into practise guidance from the literature on what makes for successful capacity building programmes to create effective organisations, best practice in implementing this guidance by other industry practitioners such as venture philanthropists and foundations, as well as building on learnings from capacity building programmes and models found in the international benchmark<sup>7</sup>.

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<sup>7</sup> Additional information from the literature relevant to the implementation of capacity building programmes and additional to the recommendations here is provided at Appendix 14.

#### 4.2 Recommendations for the design of a Portuguese framework for capacity building for social impact

Drawing on these learnings and applying them to the Portuguese context leads to the following recommendations for designing a capacity building framework in Portugal:

##### **Recommendation #1:**

Use the capacity building fund to pilot a series of capacity building programmes over the fund life

##### **Recommendation #2:**

Begin with the third party model, introduce the accelerator model progressively and use the demand centred model to target gaps / specific themes once both the demand and supply sides have sufficiently developed and sufficient learnings have been generated

##### **Recommendations Set #3:**

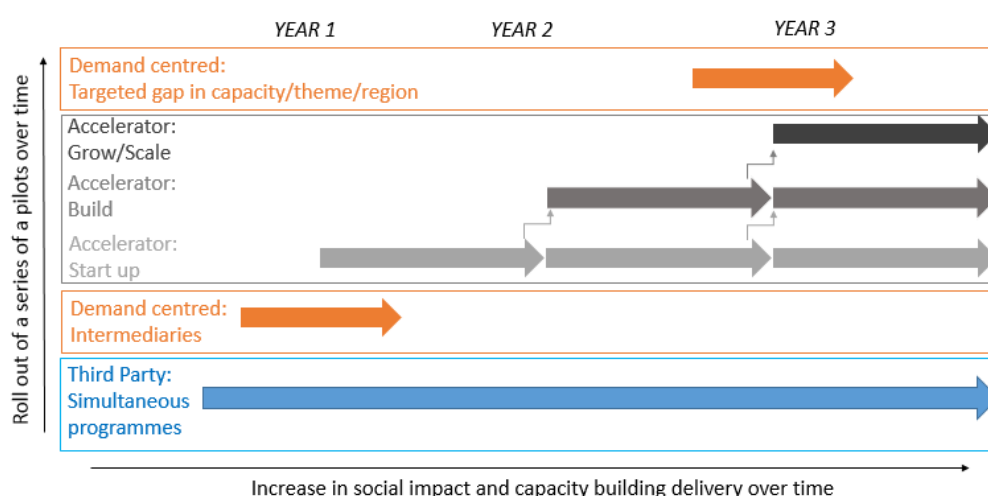
A standardised outcomes focus, impact evidence building and reporting to common standards across programmes will result in shared learning on what works best

##### **Recommendation #1**

Based on the advantages and disadvantages of the three models analysed and the current starting point for capacity building on the supply and demand side of the Portuguese social sector, some models appear more likely than others to be successful when applied in the social context. However, given the size of the market and the exploratory nature of the work of Portugal Inovação Social in building the social investment market, there is an opportunity to trial each of the models over the life of the fund. This will help build an understanding of which model works best for a given purpose or segment of the market. Key to using pilot projects in this way will be developing a sequence of capacity building programmes to be delivered in a systematic approach, tailored to the needs of the social organisations and the capacity of the support providers in the market at the time of its delivery. Therefore, the key message of this recommendation is that the build-up of capacity building programmes in such a nascent market as Portugal should follow a building-block approach, which gradually evolves through learnings and growing experience.

##### **Recommendation #2**

**Figure 8** Diagram of Proposed Capacity Building Programme Delivery



**Source:** Author's own

Beginning with the third party model will allow the fund to establish what capacity building programmes are currently being offered in the Portuguese market, capitalise them and to resource the providers of those programmes with funding over a longer term period which will help them to develop and expand those programmes, with the intention of maximising impact. As a number of different programmes could potentially be supported and each intermediary will report on its work and delivery of outcomes to Portugal Inovação Social, it will also provide learnings on what works best in the Portuguese context. These can be shared and used in designing other capacity building programmes. This approach has the additional benefit of being able to use the chosen intermediaries as examples to build awareness of what capacity building for social impact is and what a successful programme looks from the beginning, which can be an important market building tool.

Unsuccessful intermediaries, along with new entrants to the social sector could then be provided with the opportunity to undertake capacity building through a demand centred fund. This will aim to help address any gaps in their expertise required for capacity building for effective social organisations. This capacity building programme will also help to build the pool of support providers available to partner in later capacity building programmes, including those implemented under the third party or accelerator models, as well as testing the readiness of the Portuguese market for the demand centred model. Any shortfalls revealed can then be addressed in later demand led programmes. Whilst the third party model is more structural capacity building, i.e., it addresses a wide range of competences and needs within organisations, the demand centred model is more transaction focus where it addresses specific capacity needs in order to lead to a successful bid or capital raising.

The accelerator model is recommended as the main source of capacity building in the Portuguese market. Each of the accelerator programmes can be rolled out sequentially over the fund life to meet the support needs of organisations as they progress through the development cycle, with only the organisations with the highest potential progressing through the pipeline. Delivery of multiple programmes under this model will also grow the demand for intermediaries to partner with the accelerator and creates an incentive for the supply side of the market to develop the requisite skills and/or to grow in size to be able to meet this need. Accelerator programmes have been successful in developing traditional start-ups and entrepreneurs in Portugal in recent years so this model has already been tested and is known to some degree in the local context.

Finally, during the latter period of Portugal Inovação Social's three year term, when the supply side of the market (i.e. service providers) has grown and the social organisations' understanding of and demand for capacity building is sufficiently developed, demand centred programmes can also be tested. These can be used to address any specific gaps in the social organisations' capacity to deliver social impact at that time or to focus on increasing the delivery of social impact according to themes or regions.

This systematic approach to building up both the demand side and the supply side of the market through time will ensure a focus on social impact is embedded into social organisation's culture at every stage of the development cycle and throughout the pipeline.

### Recommendation #3

The final recommendation will help ensure that Portugal Inovação Social uses its central role in the building the social investment market and oversight of the various pilot programmes to instil best practice

(e.g. a focus on outcomes, impact measurement and evaluation) and common reporting standards across the market as it develops. Using a standard, bespoke diagnostic tool across all programmes will help reinforce the shared outcomes, allow a benchmark to be created of all organisations in the social sector and will help at a later stage in comparing programme outcomes. In addition, Portugal Inovação Social will play a key role in sharing learnings between programmes and building networks between intermediaries, social organisations and the for-profit sector, which will be valuable for (i) peer-to-peer learning, (ii) creating partnerships to deliver a full range of capacity building supports in each programme, and (iii) to make use of shared group and/or off-the-shelf training, pro-bono professional support and mentoring where possible.

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